By ROSE N. ZEISEL

Wages Under Collective Bargaining in 1970

Many more of the workers covered by collective bargaining are negotiating new contracts this year than last, and the increases they gain for 1970 will almost certainly exceed the deferred increases of workers not negotiating. It seems likely, therefore, that the average wage rate change for all workers under collective bargaining will be larger this year than last.

SOME 5 million workers are covered by major labor contracts up for negotiation in 1970, a year marked by an unusually heavy calendar of negotiations. Another group, numbering slightly more than 5 million, is scheduled to receive deferred wage increases under the terms of contracts negotiated in the past.[1] Although the unionized workers covered by major contracts account for only about 20 percent of all nonsupervisory workers in the nonfarm sector, movements in their wages are nevertheless an interesting and important factor in the economy. The average wage rate increase this year for the unionized group will reflect both the first-year increases resulting from new negotiations and the deferred increases. It seems highly likely that this overall change, or "effective wage adjustment," will be larger than in 1969. Last year it amounted to just over 5 percent of the straight time hourly earnings of the workers covered by major contracts (chart 9). A figure of 6 percent or even more seems possible this year.

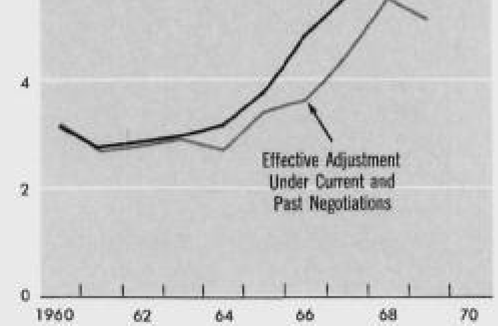
The size of the effective wage adjustment in any given year depends on the size of the first-year increase negotiated in that year, the size of the deferred increase received in that year, and the proportion of the total group of workers receiving each type of increase. There are two factors making it likely that the effective wage adjustment will be higher this year than last. First, the wage increases provided for the first year under new contracts have been rising steadily and in 1970, as in other recent years, will almost certainly exceed the deferred increases provided by contracts negotiated previously. Second, roughly half of all workers covered by major contracts are affected by new negotiations this year whereas negotiations last year involved only about one-fourth of the group.

In 1969, workers whose contracts had been negotiated in earlier years received a deferred increase averaging 4 percent, half the size of the first-year increase provided by new contracts. The average deferred increase scheduled to be received in 1970 is 4.4 percent, a little higher than last year; contract settlements in the first quarter of 1970 provided a first-year increase averaging 8.8 percent.[2]

The outcome of contract negotiations in the remainder of the year cannot, of course, be foretold. Workers are pressing vigorously for large increases. Economic activity has been slackening, however, with unemployment rising and profits falling. For the full year 1970, the average first-year wage increase resulting from new negotiations might be lower than the 8.8 percent negotiated in the first quarter—though it could also conceivably be higher. However, even if the outcome for the full year is lower than that in the first quarter, the effective wage adjustment for the union worker group as a whole is still likely to be greater in 1970 than in 1969. This assessment rests on the change in

CHART 9

Wage Adjustments Established in Collective Bargaining



Note.—Median annual percentage change in straight time hourly earnings. Data based on major agreements covering 1,000 or more workers.

Data: BLS

U.S. Department of Commerce, Office of Business Economics 70-5-9

1. The data on labor-management contract negotiations used in this article are compiled and published by the Bureau of Labor Statistics. They relate to major contracts covering 1,000 or more workers. A small proportion of the 5 million workers affected by negotiations in 1970 are negotiating under provisions for the reopening of contracts, rather than negotiating new contracts. In this article, however, the entire 5 million are referred to as though they were negotiating new contracts. In addition to those negotiating in 1970 and those receiving deferred increases, there is a relatively small group of workers who, while covered by major contracts, are neither negotiating nor receiving deferred increases.

2. The figures for first-year and deferred increases, calculated by BLS, are medians rather than means. The medians are used throughout this article, and referred to as "averages." Calculations of mean values exist only beginning with data for 1968. The mean first-year adjustment negotiated in 1969 was 9.2 percent; in the first quarter of 1970 it was 10.8 percent.

the "weights": in 1970, relative to 1969, a much larger proportion of the total group is affected by new negotiations. Given that fact, the effective wage adjustment for the group as a whole will be larger in 1970 so long as the average first-year increase negotiated this year is even moderately larger than the average 4½ percent deferred increase scheduled to be received.

Factors in labor's demands

Union members are pressing strongly for large wage gains in contract negotiations this year. The factors underlying their interest in large gains also point toward a particular interest in obtaining large increases in the first year of the new contracts.

As a rule, major labor contracts have a duration of several years, and those up for negotiation in 1970 were therefore generally settled 2 to 3 years ago. During the intervening period, labor market conditions have been generally tight and the economy has experienced serious price inflation. Consequently, workers negotiating new contracts in 1970 have an interest both in catching up with the gains won in recent years by other workers—both union and nonunion—and in offsetting the impact that inflation has had on their real incomes.

The wage gains provided by new contracts have been growing significantly. The upward trend of first-year increases can be seen in chart 9. The average annual wage increase over the full term of the contract—counting deferred increases provided by the agreement as well as the first-year increase—has also grown in recent years: it rose from just under 4 percent for contracts negotiated in 1966 to almost 7 percent for those negotiated last year.

Relatively little is known about movements in the wage rates of the workers not covered by major labor contracts, who account for the great bulk of the labor force. Some data compiled by the Bureau of Labor Statistics suggest that, in manufacturing at least, nonunion wage rates rose somewhat faster than union rates in recent years. Quite possibly, in that period of generally strong labor demand, wage rates were adjusted more frequently in nonunion establishments than in establishments working under multiyear union contracts. Minimum wage legislation has also been a factor in recent years tending to raise wage rates for many low-paying, generally nonunion, jobs.

Although workers' earnings have been rising at a substantial rate, inflation has cut heavily into the growth of real purchasing power. The consumer price index for the year 1969 was up 5⅜ percent from 1968, and almost 13 percent from 1966. Averaged for the entire private nonfarm economy, the rise last year in hourly compensation—including fringe benefits—was very modest in real terms (chart 10).[3] In the first quarter of 1970, prices were still rising rapidly and the real value of average hourly compensation was barely one-half of 1 percent higher than it had been a year earlier. Thus workers have a strong incentive to seek gains in money income large enough to represent a substantial boost in real purchasing power. It might be noted, too, that they apparently have a renewed interest in cost-of-living "escalator" provisions.

Rise in labor costs

The pressure of labor cost is an important factor in the squeeze on profits. In the private nonfarm economy as a whole, productivity last year was almost unchanged from 1968 but hourly compensation was up sharply and labor cost per unit of output rose 6½ percent (chart 10). Unit labor cost continued to rise rapidly in this year's first quarter—as did unit nonlabor cost—and profit margins dropped further. (The squeeze on the profits of nonfinancial corporations is discussed in some detail

Table 1.—Components of Effective Wage Adjustment

	1969		1970	
	Number of workers (million)	Median change (percent)	Number of workers (million)	Median change (percent)
First-year adjustment negotiated during year [1]	2.8	8.0	5.0	*8.8
Deferred increase received during year [2]	7.5	4.0	5.0-5.3	4.4
Other [3]	.7		.5	
Effective wage adjustment	10.8	5.1	10.8	* 6-6½

*First quarter *e* estimate.

1. Changes in wage rates are based on all settlements (including those with no increases and with decreases) negotiated during the year.

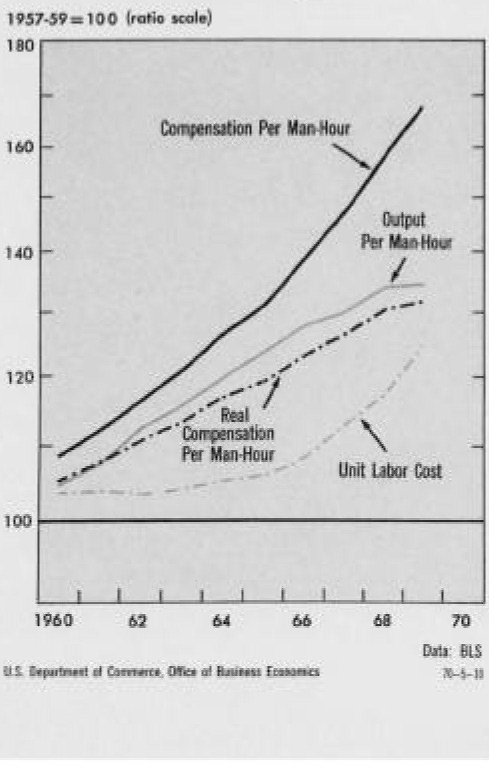
2. For 1970, represents increases negotiated at the time of the last settlement and scheduled to become effective during the year; includes guaranteed cost-of-living increases. For 1969, also includes nonguaranteed cost-of-living increases.

3. Includes workers whose wage rates were unchanged because their contracts expired but were not renegotiated, or because their contracts made no provision for deferred increases.

NOTE.—Except for 1970 effective wage adjustment, estimated by OBE, data are compiled by Bureau of Labor Statistics and cover major contracts affecting 1,000 or more workers. Figures for the number of workers in the categories in 1970 are preliminary. The component groups of workers do not sum to the total in 1969 because some workers who negotiated during the year also received deferred increases. Wage changes are calculated on straight time hourly earnings.

CHART 10

Productivity and Labor Cost in the Private Nonfarm Economy



3. Compensation per man-hour includes wages, salaries, and employers' contributions for social insurance and private benefit plans; estimated by BLS for all workers, including the self-employed.

on page 3 of this issue of the SURVEY.) In these circumstances, managers could be expected to have a strong interest in controlling costs and certainly in resisting large wage increases. The year may therefore prove to be one marked by a relatively large number of strikes.

Effective wage adjustment in 1970

It is clearly not possible at this time to make any precise estimate of this year's effective wage adjustment for workers covered by major labor-management agreements. Negotiations in the first quarter resulted in a median first-year increase of 8.8 percent, but the outcome of negotiations in the rest of the year remains to be seen. Some other relevant facts are known, however. Most of the workers not involved in new negotiations this year are scheduled to receive deferred wage increases. The number of workers involved—between 5.0 and 5.3 million—and the average increase—4.4 percent—are known, and these facts have an important bearing on the likely size of the effective wage adjustment for the total group covered by major agreements.

The deferred increase is small relative to the first-year increases negotiated this year and for several years past. This results from the practice known as front loading, coupled with the general escalation of wage settlements in recent years. Most contracts run for more than 1 year, and it has become typical for them to include increases scheduled to occur after the first year. Negotiations in recent years have established a pattern of front loading, in which the deferred increases are smaller than those provided in the contract's first year. In 1970, as in any year, the deferred increases received by workers are the result of negotiations in previous years. The fact that settlements have generally become larger in the intervening period tends to widen the gap between those deferred increases and the first-year increases received under new negotiations.

If it is assumed that negotiations in 1970 will result in an average first-year increase equal to the 8.8 percent negotiated in the first quarter, then the median effective wage adjustment in 1970 might be on the order of 6 to 6¼ percent.[4] The elements of the calculation by OBE are shown in table 1. On the basis of this type of calculation, the effective adjustment in 1970 would exceed last year's 5.1 percent even if the first-year increase negotiated this year were as much as 2 to 2½ percentage points less than the 8.8 percent reported for the first quarter.

4. An estimate by OBE based on mean rather than median data results in an effective wage adjustment in 1970 of about 7½ percent, compared with 6½ percent in 1969.

(*Continued from page 4*)

The downward movement in credit costs during the first quarter appeared to be attributable in large part to a reassessment of market expectations that stemmed from the slackness in business activity and from scattered evidence suggesting some reduction in the degree of credit restraint. In late March, the decline in market rates was spurred by a reduction, from 8½ to 8 percent, in the prime rate, i.e., the rate that banks charge their most credit-worthy borrowers.

As is typically the case when the direction of interest rate movements is reversed, the change in short-term rates was substantially greater than that in long-term rates. Indeed, by the end of March, most short-term rates were down roughly 1-to-1½ percentage points from their yearend levels, a decline nearly twice that registered in yields of U.S. Government and State and local bonds (chart 4). The intensity of corporate demands for long-term credit, prevented much downward adjustment of yields on corporate bonds. At the end of the first quarter these yields were basically unchanged from their yearend levels.

In April, conditions in money markets were permitted to tighten a little as an excessive generation of reserves caused by technical factors in late March was offset. However, the runup in interest rates continued into a period when the Treasury was engaged in a major financing operation. In order to facilitate this operation, the monetary authorities undertook large scale open market purchases of government securities in early May.

Credit demands continue strong

Despite the slower pace of economic activity in the opening months of 1970, credit demands have remained very heavy, and the volume of funds raised in financial markets was roughly the same as in the closing quarter of last year. Borrowing by the household sector eased a little as there was a slackening in both the growth of outstanding consumer credit—especially automobile paper—and mortgage debt. The other major borrowing groups generally raised more funds in the first quarter than in the fourth.

The striking rise in corporate bond flotations so far in 1970 partly reflected an accelerating demand for external financing, as capital investment continued to expand while internal funds declined. The first quarter also witnessed efforts by corporations to refinance short-term debt by issuing longer maturities. In addition to attempts to lengthen maturity structures, the decline in the demand for short-term credit also reflected the slowing in inventory accumulation.

The volume of new tax-exempt State and local government bond issues moved up sharply in early 1970. As in the case of corporations, a substantial portion of the growth in tax-exempt issues reflected a partial refinancing of the unprecedented volume of short-term debt incurred during the credit stringency of 1969.

Net borrowing by the Federal government was moderate during the first quarter of 1970, but an increase marked the reversal of the experience in 1969, when substantial budget surpluses led to a large reduction in Federal debt held by the public. Also, the debt of government-sponsored credit agencies continued to expand rapidly.